

Decision \_\_\_\_\_

**BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA**

Application of Southern California Edison Company (U 338-E) For Authority to, Among Other Things, Increase Its Authorized Revenues For Electric Service in 2003, And to Reflect That Increase in Rates.

Application 02-05-004  
(Filed May 3, 2002)

Investigation on the Commission's Own Motion into the Rates, Operations, Practices, Service and Facilities of Southern California Edison Company.

Investigation 02-06-002  
(Filed June 6, 2002)

**OPINION ON PETITION OF OFFICE OF RATEPAYER ADVOCATES  
FOR MODIFICATION OF DECISION 04-07-022****1. Summary**

By petition dated December 1, 2004, the Office of Ratepayer Advocates (ORA) seeks modification of Decision (D.) 04-07-022, which resolved Phase 1 of Southern California Edison Company's (SCE) test year 2003 general rate case (GRC). ORA seeks to have removed from D.04-07-022 certain provisions pertaining to a depreciation study based on a joint SCE/ORA management approach. This decision grants ORA's petition.

**2. Background**

In D.04-07-022, the Commission rejected the depreciation estimates that SCE submitted in conjunction with its 2003 test year GRC, as well as those submitted by TURN in that proceeding. The Commission concluded that the

“extensive exercise of subjective judgment by the respective depreciation experts renders their analyses and recommendations unreliable for purposes of ordering major changes in depreciation parameters and expenses.” (D.04-07-022, as modified by D.04-10-019, p. 252.) The Commission expressed the need to have an updated depreciation study upon which it could rely as the basis for establishing the authorized depreciation expense in SCE’s next GRC:

“With the passage of time, it will be even more important in SCE’s next GRC to have an updated depreciation study, upon which we can rely with confidence, as the basis for establishing the authorized depreciation expense. We believe the approach that we have pursued with total employee compensation studies, where the utility and ORA agree in advance upon study parameters and the selection of an independent qualified expert, may provide an appropriate model for the development of such a depreciation study. We will direct SCE to pursue this approach for a depreciation study to be included in its next GRC. While the joint management of the study should be limited to SCE and ORA, we recognize the important role fulfilled by TURN with respect to depreciation in this GRC, and we seek to ensure that TURN and other interested parties have an opportunity to participate appropriately in the study design. Toward that end, SCE should, at the outset of the study design process, convene a workshop providing opportunity for interested parties to participate. We urge and expect the parties’ cooperative efforts toward the objective of a reliable, independent depreciation study.” (D.04-07-022, pp. 253-254.)

ORA requests that the requirement for a jointly managed depreciation study for SCE’s next GRC be eliminated. ORA believes that it should be able to review SCE’s showing, conduct its own internal analysis, and develop its own independent recommendations by applying its own discretion and informed judgment. ORA believes that given the strongly subjective nature of depreciation-related analyses, this is one area where it is critical that ORA

maintain its independence by not surrendering to the analysis and conclusions of a third-party consultant.

SCE and TURN filed timely responses to ORA's petition.<sup>1</sup> SCE takes no position on whether ORA's request should be granted, and states its willingness to proceed on whatever path the Commission decides upon in order to have a reliable record on depreciation issues and render a timely decision on those issues in SCE's upcoming 2006 GRC. SCE notes that in a letter to the Commission's Executive Director dated November 24, 2004, it advised the Commission of ORA's unwillingness to proceed with the joint study. Concerned about its own compliance with D.04-07-022 due to the impasse with ORA, SCE identified three alternative approaches that might be pursued: (1) proceed with the approach used in prior GRCs, *i.e.*, SCE would simply present its own depreciation study with its 2006 GRC application; (2) direct a staff organization other than ORA to assume ORA's joint management role; or (3) direct SCE to retain an independent consultant to perform its own depreciation study for submission in the 2006 GRC. SCE believes that ORA's petition makes a factual misstatement by stating that most depreciation experts focus exclusively on asset service lives and not net salvage. SCE submits that, to the contrary, net salvage has been an increasingly important element in depreciation studies.

TURN does not specifically support or oppose ORA's petition. TURN had thought that the jointly managed study approach might obviate the

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<sup>1</sup> In a ruling issued December 6, 2004, after determining that timely Commission action on ORA's petition could promote the orderly processing of SCE's next GRC, the Administrative Law Judge (ALJ) shortened the time for responses to ORA's petition to December 10, 2004.

“depreciation battles” that have occurred in recent GRCs for SCE and Pacific Gas and Electric Company. On the other hand, TURN believes it serves no interests to force ORA to participate in a study when ORA has expressed serious concern regarding its ability to advocate. TURN suggests two alternative approaches to achieve, at least in part, the objectives that the Commission sought to achieve by ordering the jointly managed study. First, the Commission could sponsor an ALJ-moderated workshop in connection with SCE’s next GRC. The goal of the workshop would be to set guidelines regarding the type and quality of data that SCE would need to provide with its initial showing on depreciation-related issues. Second, the Commission could preserve the jointly managed study requirement ordered by D.04-07-022 but add language to the decision specifying that ORA’s participation in managing the study in no way implies ORA’s agreement with the study results, and that ORA should still submit its own independent analyses and evaluation of SCE’s showing.

### **3. Discussion**

When we established the jointly managed depreciation study approach in D.04-07-022, it was not our intent to impose upon ORA a requirement that would in any way compromise its role of advocate for the interests of utility ratepayers. Rather, we sought to create a solution to the recurring problem of “depreciation battles” within GRCs that seem to bring more heat than light to the subject, leaving us with an evidentiary record that fails to convince us to change existing depreciation rates even though we are well aware that those rates are substantially outdated. We thought that the addition of an independent study performed by qualified experts demonstrably having no stake in outcome of the study would be a positive step forward.

We still hold these beliefs. Moreover, we do not believe that the jointly managed study requirement compromised ORA's advocacy role. Nothing in D.04-07-022 prevents the applicant utility or any other party from submitting and advocating for its own study in addition to the jointly managed study. We are also mindful of resource limitations encountered by ORA. The jointly managed study approach would provide ORA with the opportunity to participate in shaping an independent study that it would not be required to fund. This "leverage" would allow ORA to help build the record of the next GRC by means not otherwise available to it.

Notwithstanding the foregoing discussion, we understand that ORA has arrived at the conclusion that its participation in a jointly managed independent depreciation study would jeopardize its independent advocacy role. Although we do not concur in ORA's assessment that its participation in the selection of an independent consultant and the establishment of study parameters would necessarily imply ORA's endorsement of the study's outcome, we will not press the issue here. We will remove the joint study requirement established in D.04-07-022 as requested by ORA, and we will relieve SCE of the obligation to further pursue such a joint study.

We appreciate the suggestions offered by both SCE and TURN, but we are not persuaded to adopt an alternative to the approach requested by ORA at this time. We commend TURN's suggestion for a workshop to the consideration of the Commissioner and ALJ assigned to SCE's 2006 GRC application.

#### **4. Comments on Draft Decision**

This is an uncontested matter in which the decision grants the relief sought. Public review and comment is waived pursuant to Rule 77.7(f)(2) of the Rules of Practice and Procedure.

**5. Assignment of Proceeding**

Susan P. Kennedy is the Assigned Commissioner and Mark S. Wetzell is the assigned ALJ for Phase 1 in this proceeding.

**Findings of Fact**

1. ORA's petition is uncontested.
2. ORA has determined that its participation in a jointly managed independent depreciation study as ordered by D.04-07-022 would jeopardize its independent advocacy role.

**Conclusions of Law**

1. D.04-07-022 should be modified in accordance with the foregoing discussion.
2. SCE should be relieved of its obligation to pursue a jointly managed depreciation study with ORA.

**O R D E R**

**IT IS ORDERED** that Decision 04-07-022 is modified as follows:

1. The last paragraph of the discussion for Section 9.2, at pages 253-254, is modified by deleting all but the first sentence. As modified, the paragraph shall read as follows:

With the passage of time, it will be even more important in SCE's next GRC to have an updated depreciation study, upon which we can rely with confidence, as the basis for establishing the authorized depreciation expense.

2. Conclusion of Law 45 at page 342 is deleted.
3. Subparagraph d. of Ordering Paragraph 16 at page 347 is deleted.

This order is effective today.

Dated \_\_\_\_\_, at San Francisco, California.